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QUARTERLY ECONOMIC REPORT FOR SMALL BUSINESS

January 1989

Quarterly Economic Report for Small Business

January 1989

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NFIB QUARTERLY ECONOMIC REPORT
FOR SMALL BUSINESS
(REPORT NO. 62)

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SUMMARY OF RESULTS

by

William C. Dunkelberg
Purdue University

William J. Dennis, Jr.
The NFIB Foundation

Small business continues to forge ahead, enjoying healthy economic conditions and projecting more of the same. The report's strength was led by capital expenditures and employment. However, nearly all indicators of small business economic activity were favorable. There were two exceptions: interest rates continued to climb and planned selling price increases rose sharply.

The fourth quarter was a very good quarter for small business. The highlight was the strongest employment performance in four years. Close was capital expenditures. The frequency of capital expenditures made was the greatest in three years. Other good news spiced the quarter. The Index of Small Business Earnings was unchanged from October's high level. Inventory positions were generally satisfactory. The frequency of price increases was unchanged from October. Fewer raised employee compensation than in the prior quarter indicating no inflationary push from that direction. Though the Index of Small Business Sales slid, sales were still healthy. The sole negative was the continued rise in interest rates.

Small business owners anticipated the next three months would be about the same. They expected no major changes. As a result, the Index of Small Business Optimism forecast the first quarter's GNP (annualized) to hover around 4.0 percent. Planned capital expenditures tied the survey record high. Planned employment change was the most favorable in over a decade on a seasonally adjusted basis. Sales expectations and inventory investment also moved higher. The climate for small business expansion remained steady, but expected general business conditions slipped slightly as did expected credit conditions. However, a sharp increase in the number planning price increases clouded the report's positive tenor.

Outlook

The small business outlook has gradually deteriorated since 1985. However, within the last year, it has shown renewed signs of life.

The relative measure of the small business outlook - expected general business conditions - declined between October and January on a seasonally adjusted basis. But except for October, January produced the best number in five quarters. Twenty-two (22) percent believed that business conditions would improve in the next three to six months compared to 12 percent who believed they would deteriorate (Table 1). Given that the economy is already doing well and is in its sixth year of expansion, the surprise is not that few small business owner respondents expected conditions to improve. The surprise is that many did not expect conditions to get worse.

Table 1

EXPECTED GENERAL BUSINESS CONDITIONS OVER THE NEXT THREE TO SIX MONTHS COMPARED TO CURRENT QUARTER

EXPECTED CONDITIONS	1986 JAN	1987 JAN	1988 JAN		1988 APR	1988 JUL	1988 OCT	1989 JAN
Much Better	2	2	2		1	1	2	2
Better	27	24	22		21	15	17	20
Same	56	56	54		58	54	53	58
Worse	9	10	16		12	18	15	11
Much Worse	1	2	1		1	3	1	1
Don't Know	5	5	5		7	8	11	7
No Answer	*	1	*		*	1	1	1
Total	100%	100%	100%		100%	100%	100%	100%

*Less than 0.5%

The absolute measure of the small business outlook - the climate for small business expansion - showed no change on a seasonally adjusted basis. January represented the third consecutive quarterly report without movement in the number. Seventeen (17) believed it a good time for small business expansion and 44 percent believed it was not (Table 2). Despite the relatively stable proportion with a positive view, the notable feature in the data is the declining number with a negative view. Many "negatives" have shifted to uncertainty, suggesting that there is some movement of opinion and in a favorable direction.

Those believing it a good time for small business expansion most often attributed their view to general economic conditions and sales

Table 2

CLIMATE FOR SMALL BUSINESS EXPANSION IN NEXT QUARTER

GOOD TIME TO EXPAND	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Yes	20	18	13	21	19	16	17
No	47	49	52	41	43	47	44
Uncertain	32	32	35	37	37	37	38
No Answer	1	1	*	1	1	*	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

prospects (Chart 1). Those with negative and uncertain views most often pointed to pointed to general economic conditions. However, higher interest rates took their toll. The number attributing their negative view of future economic conditions to interest rates and finance moved up from October, increasing six percentage points to 15 percent. Rising costs appeared to have minimal influence. The numbers attributing negative and uncertain views to expansion costs only edged up from October.

Credit Conditions

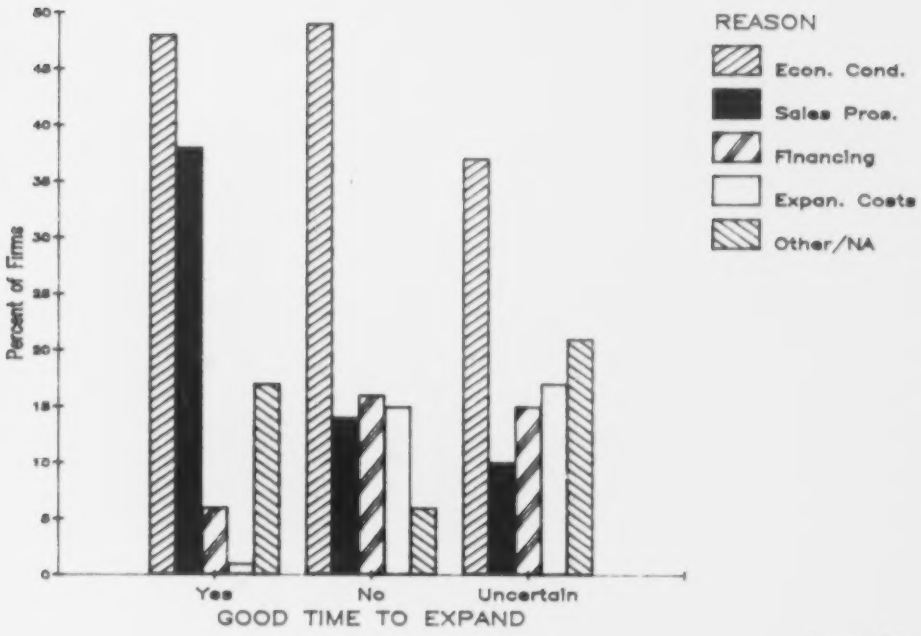
Small business credit conditions along with higher expected selling prices were the two negative aspects of January's data. Interest rates continued to rise over the fourth quarter reaching their highest level in two years. While these increases appear to have done little to halt the capital expenditure boom (see, Capital Expenditures), they have begun to negatively affect the small business outlook (see, Outlook). Despite the interest rate trend, small business did not expect further increases in the near future.

Small business borrowers paid an average of 12.0 percent for their short-term business loans (Table 3). The fourth quarter's average was 0.4 percent higher than the third quarter's, 0.8 percent higher than the second quarter's, and 1.2 percent higher than the first quarter's. With nearly 50 percent of these loans now tied directly to the prime rate, borrowing costs are increasingly sensitive to interest rate movements. Over 70 percent of all regular borrowers saw their financing costs rise in the last three months (Table 4).

Despite the rise in rates, small business borrowers indicated little change in the availability of loans. January's loan availability data was almost identical to that reported one year

Chart 1

"GOOD TIME TO EXPAND" by REASON
FOR VIEW OF EXPANSION



Source: NFIB

Table 3

INTEREST RATE PAID ON SHORT-TERM LOANS

INTEREST RATE	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Under 10%	2	10	5	10	4	3	2
10%-12%	36	32	36	33	34	38	36
13%-15%	23	2	5	6	7	8	10
16% or More	2	5	4	2	2	2	3
Prime +1	27	25	28	25	29	27	28
Prime +2	16	17	17	21	20	18	18
Prime +3 or More	4	4	5	3	4	4	3
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE RATE	12.1%	10.7%	11.1%	10.8%	11.2%	11.6%	12.0%

*Less than 0.5%

Table 4

CURRENT INTEREST RATE COMPARED TO
INTEREST RATE IN PRIOR QUARTER

RELATIVE INTEREST RATES	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Much Higher	*	1	*	1	*	1	2
Higher	2	2	12	6	17	22	25
Same	20	18	21	23	15	13	9
Lower	15	15	4	5	1	1	1
Much Lower	*	*	*	*	*	*	*
Don't Know	1	1	1	1	2	1	1
Inapplicable (borrow infre-frequently;no answer)	62	63	61	61	65	62	62
Total	100%	100%	100%	100%	100%	100%	100%

ago. Eight percent - 21 percent of borrowers - felt loans were harder to obtain then they were three months before compared to one percent - 3 percent of borrowers - who felt they were easier (Table 5). But the gap is typical of periods with comparatively easy access to business loans and suggests little difficulty obtaining them.

Table 5

AVAILABILITY OF LOANS
COMPARED TO PRIOR THREE MONTHS

LOAN AVAILABILITY	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Easier	3	3	1	2	1	1	1
Same	26	24	29	25	25	28	27
Harder	7	7	7	7	7	7	8
Don't Know	2	3	2	2	2	2	2
Inapplicable (Don't Borrow; No Answer)	62	63	61	61	65	62	62
Total	100%	100%	100%	100%	100%	100%	100%

Small business borrowers did not expect financing conditions to change appreciably over the next three months. Nine percent anticipated conditions would worsen in contrast to one percent that

anticipated they would improve (Table 6). Like reported loan availability, these data showed minimal deterioration from October and are virtually identical to last January.

Table 6

EXPECTED FINANCING CONDITIONS NEXT QUARTER
COMPARED TO THE CURRENT QUARTER

CREDIT EXPECTATIONS	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Easier	3	3	2	2	2	2	1
Same	24	23	26	22	22	24	24
Harder	8	8	9	8	8	9	9
Don't Know	3	3	2	2	3	3	4
Inapplicable (Don't Borrow; No Answer)	62	63	61	61	65	62	62
Total	100%	100%	100%	100%	100%	100%	100%

Thirty-eight (38) percent considered themselves "regular borrowers," i.e., they borrow at least once a quarter. January's number reflected the gradual decline in regular borrowing which has occurred since inflation slowed precipitately. With borrowing regular apparently tied to the inflation rate, the number of borrowers should be expected to increase somewhat over the next year. However, small business earnings remain healthy (see, Earnings), suggesting regular borrowing activity will not change very much in the coming months.

Prices

Inflation continues to gather momentum. While we may yet escape notably higher inflation in 1989, January's small business price data suggested that the year's inflation rate will increase noticeably. The big unknown influencing the course of prices is the behavior of employee compensation. Small business compensation gains have been moderate - even modest - over the last few years (see, Compensation) as they have been in the larger economy. January's data indicate that situation will continue. But increasingly tight labor markets across growing portions of the country (see, Employment) and rising benefit costs, particularly health insurance, mean that moderate increases cannot continue indefinitely.

Twenty-nine (29) percent reported higher selling prices in the fourth quarter than in the third (Table 7). While the figure is 11 percentage points higher than reported just two years ago (January,

1987), it is consistent with data collected over the five quarters. Eight percent reported average decreases. That number is also consistent with recent data, but five to eight percentage points lower than the numbers recorded as recently as 1985 and 1986.

Plans to increase prices jumped sharply in January. Thirty (30) percent reported plans to raise average selling prices in the first quarter (Table 8), the highest proportion doing so since January, 1982. While seasonality plays a role in the unusually large number, the rate of price increase has racheted higher in each of the two years as have successive January's peaks. With price performance historically paralleling price plans (Chart 2), it is likely that sharply higher plans will be translated into more frequent prices increases.

Table 7

CURRENT AVERAGE SELLING PRICES COMPARED TO PREVIOUS QUARTER'S AVERAGE SELLING PRICES

AVERAGE SELLING PRICES	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Lower Now	14	12	12	10	9	8	8
No Difference	63	65	57	57	58	59	58
Higher Now	20	18	29	30	29	29	29
Less than 1%	*	1	1	*	1	*	1
1.0-1.9%	2	3	2	4	3	4	4
2.0-2.9%	3	3	4	5	5	4	5
3.0-3.9%	2	2	3	4	3	5	4
4.0-4.9%	3	2	3	3	4	4	4
5.0-7.9%	4	3	6	8	6	6	6
8.0-9.9%	1	1	2	2	1	1	1
10% or More	4	2	8	3	5	4	3
No Answer	1	1	*	1	1	1	1
No Answer	3	5	2	3	4	4	5
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

Plans to raise prices were broadly spread across industries. Every major industry except the services reported more frequent plans to raise prices. The sharpest increases came from those in construction, financial service, manufacturing and professional service industries. In absolute terms, over 30 percent in the wholesale, manufacturing, professional service, construction and retail industries projected price hikes. Those in the agricultural (n=100) and transportation/communications (n=70) industries were least likely to plan to increase prices.

Table 8

PLANNED PRICE CHANGES FOR NEXT QUARTER

PLANNED PRICE CHANGES	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Lower	3	3	5	3	2	3	2
No Change	56	55	55	54	53	56	49
Increase	25	22	27	24	26	25	30
Less than 1%	*	*	*	*	*	*	*
1.0-1.9%	3	2	3	2	2	3	3
2.0-2.9%	4	4	3	3	3	4	4
3.0-3.9%	4	3	4	4	4	4	4
4.0-4.9%	3	3	5	3	4	3	4
5.0-7.9%	6	6	7	7	7	7	9
8.0-9.9%	1	1	1	1	2	1	1
10% or More	3	2	3	3	3	3	3
Don't Know	1	1	1	1	2	*	3
Don't Know	13	14	12	13	14	12	13
No Answer	3	6	1	6	5	4	6
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Compensation

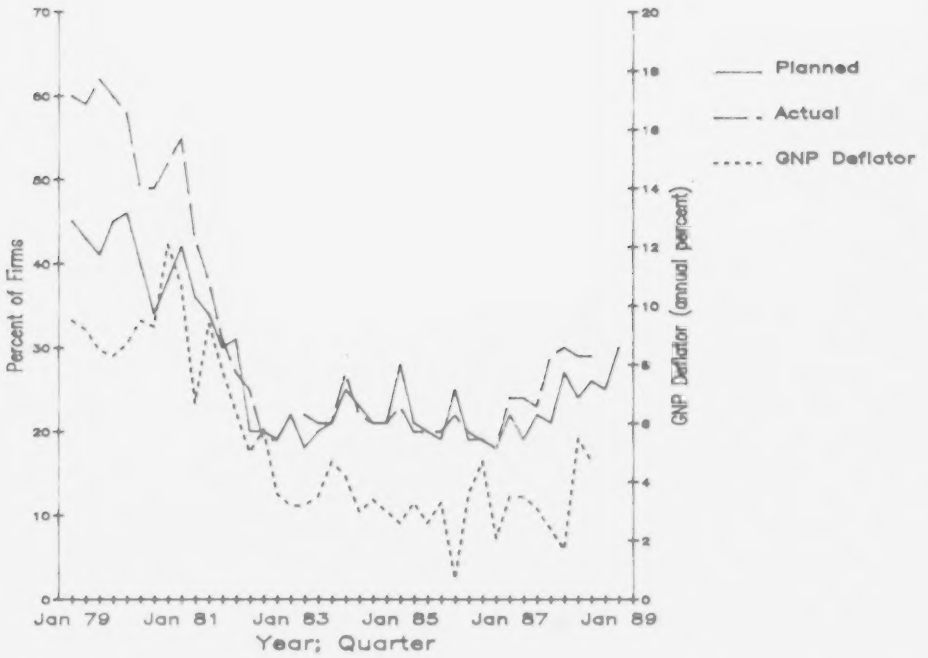
Compensation increases continued to be moderate in the fourth quarter and plans for the first quarter suggested nothing different. While employee compensation costs are rising, they are clearly not the principal factor driving small business prices higher.

Twenty-four (24) percent reported higher employee compensation costs over the last three months (Table 9). The figure was two percentage points lower than October, but similar to those recorded throughout 1988. The average increase per firm with higher compensation was 1.4 percent (annualized) or 5.9 percent (annualized) across all small firms. Average increases in the fourth quarter were typical of those reported over the last four years. Thus, there is no evidence from small business that compensation costs are pushing prices higher.

January's employee compensation plans suggested that future compensation costs will lag price increases. Twenty-four (24) percent reported plans to raise employee compensation in the next three months (Table 10). The figure was three percentage points higher than recorded in October, but identical to last January's. The average increase planned, 5.9 percent per firm planning an increase, was the highest since institution of the series in 1984. Yet, projected costs across all firms were not substantially larger than in January, 1986, or January, 1988.

Chart 2

THE FREQUENCY OF PLANNED AND ACTUAL PRICE INCREASES



Sales

Fourth quarter sales were healthy. Thirty-one (31) percent reported higher sales in the last three months of the year than in the previous three months; 25 percent reported them lower (Table 11). It was the best fourth quarter since 1983.

The seasonally-adjusted Index of Small Business Sales slipped from the third quarter (Chart 3). However, the slide was not large and left the Index at an historically high level. The fourth quarter's Index score was typical of the year's average making 1988 the best year for sales in the last four.

Sales expectations rose on a seasonally adjusted basis. Forty-four (44) percent believed their sales would increase in the next three months; 25 believed they would decline (Table 12). While January's sales expectations data proved favorable, they suggested little change in current sales conditions. Sales expectations have moved in a narrow band over the last nine quarters reflecting solid, if unexciting, demand. January was no different. However, sales

Table 9

CHANGE IN AVERAGE COMPENSATION
OVER THE PAST THREE MONTHS

COMPENSATION CHANGE	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Increased	19	19	23	24	25	26	24
1-2%	3	3	3	3	3	3	3
3-4%	5	6	7	8	7	8	7
5-6%	6	6	6	7	8	7	7
7-8%	2	1	2	2	3	3	3
9-10%	1	1	1	2	2	2	2
Over 10%	1	1	3	1	2	2	5
No Answer	1	1	1	1	*	1	*
Same	74	71	70	69	69	67	69
Decreased	1	2	1	1	1	1	1
No Answer	6	8	6	6	5	6	6
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE INCREASE							
Firms Increasing	5.7%	5.4%	6.0%	5.6%	5.9%	5.8%	5.9%
All Firms	1.1%	1.1%	1.4%	1.4%	1.5%	1.5%	1.4%

N.A. Not Available * Less that 0.5%

Table 10

PLANS TO CHANGE AVERAGE COMPENSATION
OVER NEXT THREE MONTHS

COMPENSATION CHANGE	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Increase	22	20	24	20	18	21	24
1-2%	2	2	2	2	1	2	2
3-4%	7	6	7	6	6	7	7
5-6%	8	7	10	6	6	7	9
7-8%	2	2	2	2	1	1	2
9-10%	1	1	2	2	2	2	2
Over 10%	*	*	1	1	1	1	1
Don't Know	1	1	*	1	1	1	1
No Answer	1	1	*	*	*	*	*
Same	63	65	63	67	67	66	63
Decrease	1	2	2	1	1	1	1
Don't Know	10	9	8	10	11	10	9
No Answer	4	4	3	2	3	2	3
Total	100%	100%	100%	100%	100%	100%	100%

Table 10
(continued)

PLANS TO CHANGE AVERAGE COMPENSATION
OVER NEXT THREE MONTHS

AVERAGE INCREASE

Firms Increasing	5.4%	5.4%	5.5%	5.5%	5.8%	5.4%	5.9%
All Firms	1.2%	1.0%	1.1%	1.3%	1.0%	1.1%	1.4%

N.A. Not Available *Less than 0.5%

expectations have been historically high over the nine quarters as have sales, suggesting no precipitous change in the existing positive conditions.

Earnings

Small business earnings held steady in the fourth quarter. Twenty-three (23) percent reported earnings higher in the fourth quarter than in the third and 31 percent reported them lower (Table 13). The seasonally-adjusted Index of Small Business Earnings registered virtually no change (Chart 3). In fact, the Index has been stable over the last three quarters and four of the last five. After looking for a direction for over two years, the Index appears to have plateaued at an historically high level.

The distribution of reasons cited for an earnings change (higher or lower) were consistent with those reported over the last several quarters. Volume and seasonality were the principal factors causing

Table 11

DOLLAR SALES VOLUME COMPARED TO PRIOR
QUARTER'S DOLLAR SALES VOLUME

DOLLAR SALES VOLUME	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Much Higher	4	4	2	3	4	3	4
Higher	28	27	25	27	36	32	29
About the Same	38	39	46	41	38	45	40
Lower	25	23	23	24	18	17	22
Much Lower	4	5	3	4	3	2	3
No Answer	1	2	1	1	1	1	2
Total	100%	100%	100%	100%	100%	100%	100%

CHART 3

INDICES OF SMALL BUSINESS
SALES AND EARNINGS

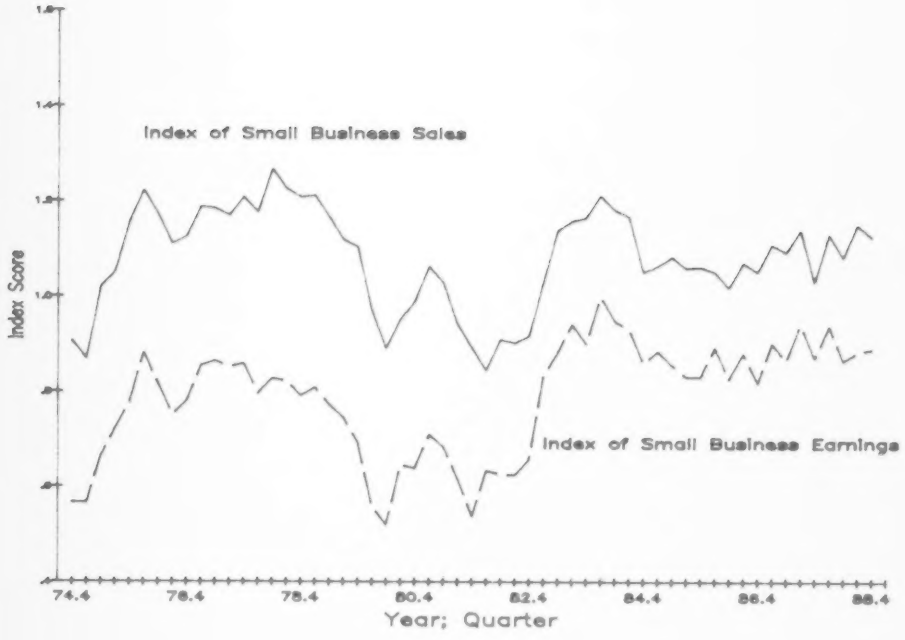


Table 12

REAL SALES EXPECTATIONS FOR NEXT QUARTER

EXPECTED REAL SALES	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Go Up A Lot	7	7	7	13	8	9	8
Go Up A Little	37	37	36	47	39	34	36
Stay the Same	29	28	33	23	30	26	29
Go Down a Little	18	18	16	11	15	20	18
Go Down a Lot	5	5	4	2	3	6	4
Don't Know	4	3	3	3	4	3	3
No Answer	*	2	1	1	1	2	2
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Table 13

NET EARNINGS COMPARED TO PRIOR QUARTER'S NET EARNINGS

NET EARNINGS	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Much Higher	2	1	1	1	2	2	2
Higher	18	21	21	19	25	22	21
Same	43	41	45	43	41	46	43
Lower	30	28	27	29	25	25	27
Much Lower	5	6	4	5	4	4	4
No Answer	2	3	2	3	3	2	3
Total	100%	100%	100%	100%	100%	100%	100%

the changes (Table 14). But higher selling prices and rising costs - factors associated with higher levels of inflation - appear to have had a modest impact on earnings. The impact of inflation on fourth quarter earnings was little different than its impact has been in other recent quarters.

Table 14

PRIMARY REASON FOR EARNINGS CHANGE

REASON FOR HIGH NET EARNINGS	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Sales Volume	60	57	50	60	59	58	60
Higher Prices	9	9	10	10	7	11	9
Factor Costs*	3	7	5	5	1	6	6
Seasonality	18	17	16	16	22	19	18
Other; NA	10	10	9	9	11	6	8
Total	100%	100%	100%	100%	100%	100%	100%

REASON FOR LOWER NET EARNINGS	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Sales Volume	45	45	38	38	41	39	40
Factor Costs*	16	18	20	23	26	28	21
Seasonality	21	21	21	23	13	17	24
Other; NA	17	16	21	16	20	15	15
Total	100%	100%	100%	100%	100%	100%	100%

* Includes labor, material, and financing costs

Employment

The American economy goes right on producing jobs and small continues to contribute more than its proportionate share. During the fourth quarter, operating small business (as opposed to starts) put on its best employment performance in the last four years. That strength will extend into 1989. Current job openings were reported to be very high. Employment plans for the first part of the new year were among the greatest in over a decade.

Fourteen (14) percent increased employment during the fourth quarter compared to 13 percent reporting a reduction (Table 15). However, seasonally adjusted, the small business performance was very strong. Not only did it produce the highest quarterly numbers in four years, but it was one of the six best quarters in the 12 year series. Not since 1978 has a fourth quarter performance been stronger.

Small business employment growth was distributed across all industrial sectors though contractors reported a much smaller than usual seasonal decline. Manufacturing and non-professional services

Table 15

AVERAGE EMPLOYMENT CHANGE IN PAST QUARTER

EMPLOYMENT CHANGE	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Increased	13	12	13	15	20	16	14
Seasonal	4	3	4	6	10	5	5
Non-seasonal	9	9	9	9	10	11	9
Decreased	14	15	17	13	10	13	13
Seasonal	6	7	6	4	2	5	6
Non-seasonal	8	8	11	9	8	8	7
No Change	73	68	70	69	68	69	70
No Answer	*	5	*	3	2	2	3
Total	100%	100%	100%	100%	100%	100%	100%
NUMBER OF EMPLOYEES							
Employees increased per firm increasing	3.4	4.4	4.0	3.9	3.9	3.6	3.9
Employees decreased per firm decreasing	3.7	4.5	3.2	4.0	3.3	3.7	3.7
Average net change per all firms	-.07	-.16	-.01	+.06	+.44	+.10	+.05

*Less than 0.5%

showed largest per firm increases with professional services and retail also posting positive unadjusted numbers.

Small business employment growth will remain on an upward path. Twenty-four (24) percent reported one or more current job openings (Table 16). Nine percent reported at least one vacancy for unskilled labor. These data indicate that unemployment will hold steady over the next quarter.

Table 16

CURRENT JOB OPENINGS

CURRENT JOB OPENINGS	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Yes	15	15	23	23	21	25	24
Skilled Labor	11	11	14	14	15	16	15
Unskilled Labor	1	3	2	4	3	4	5
Both	3	2	7	4	3	5	4
No	83	83	75	77	78	74	75
No Answer	2	2	2	1	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

Small business owners expected another large expansion of payrolls in the next three months. January plans held at October's high level. Twenty (20) percent planned net additions compared to seven percent who planned declines (Table 17). Seasonally adjusted, January's employment plans were among the best in the survey's 15 year history (Chart 4). Only those plans reported one year ago and in April of 1977 and April of 1978 were stronger.

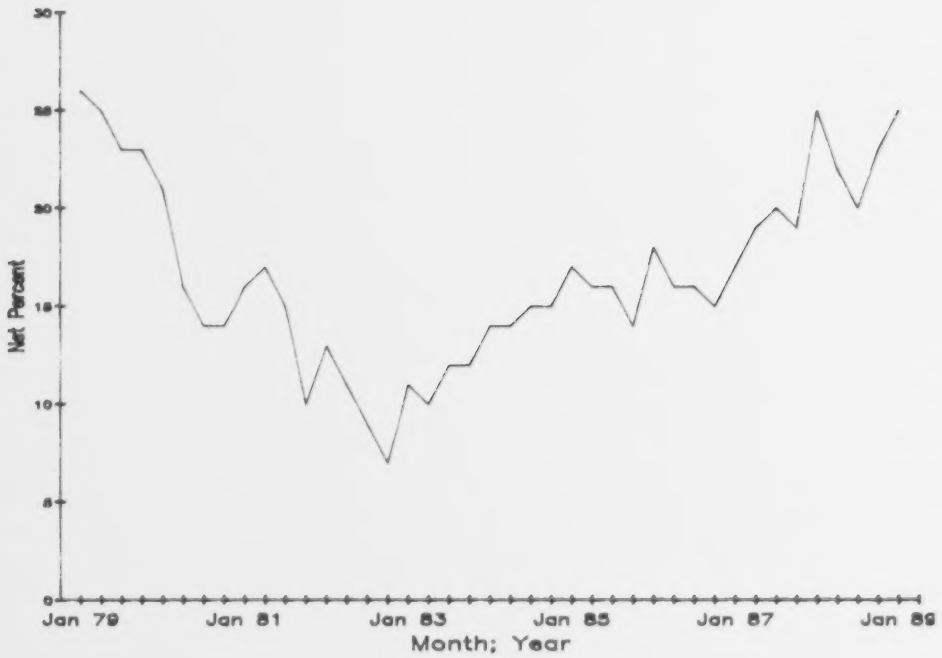
Table 17

EXPECTED NET LABOR FORCE CHANGES IN NEXT QUARTER

NET LABOR FORCE CHANGE EXPECTATION	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Increase	18	16	19	25	16	18	20
Keep the Same	73	73	74	68	73	69	69
Decrease	7	7	5	5	9	11	7
No Answer	2	4	2	2	2	2	4
Total	100%	100%	100%	100%	100%	100%	100%

Chart 4

SMALL BUSINESS EMPLOYMENT PLANS -
(Net Percent Seasonally Adjusted)



Inventory

January inventory data showed little of note. "Normal" inventory decumulations occurred in the fourth quarter leaving "normal" inventory satisfaction and requiring "normal" inventory rebuilding. If any sharp changes are coming, changes in small business inventory holdings are not about to stimulate them.

Seventeen (17) percent indicated net inventory gains in the fourth quarter; 19 percent reported net reductions (Table 18). The net -2 percentage points was identical to last years January figures somewhat higher than the two January's before. The result was 12 percent reporting inventories "too large" and 10 percent reporting them "too low" (Table 19). The net -2 percentage points is the same satisfaction level as two out of the last three quarters.

Twenty-two (22) percent planned inventory additions in the next three months while 12 percent planned decumulations (Table 20). While the net (add minus decrease) is somewhat smaller in January,

1989, than in January, 1988, the last four sets of January numbers are remarkably similar and show stable economic activity.

Table 18

INVENTORY CHANGE IN PRIOR QUARTER

INVENTORY CHANGE	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Increase	16	17	16	21	21	20	17
Same	40	37	44	44	45	46	42
Decrease	22	23	18	15	13	14	19
Not Applicable	20	20	21	18	19	18	19
No Answer	2	3	1	2	2	2	3
Total	100%	100%	100%	100%	100%	100%	100%

Table 19

CURRENT INVENTORY SATISFACTION

INVENTORY LEVEL	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Too Large	13	12	17	12	12	10	12
About Right	53	54	47	56	54	58	55
Too Low	10	10	12	10	10	10	10
Not Applicable	20	21	23	21	20	20	21
No Answer	4	3	1	1	2	2	2
Total	100%	100%	100%	100%	100%	100%	100%

Table 20

NET INVENTORY CHANGE PLANNED IN NEXT QUARTER

PLANNED INVENTORY CHANGE	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Add	21	22	23	20	16	17	22
No Change	42	41	42	44	45	44	43
Decrease	13	13	11	14	15	17	12
Not Applicable	20	21	22	19	21	20	20
No Answer	4	3	2	3	3	2	3
Total	100%	100%	100%	100%	100%	100%	100%

Capital Expenditures

Capital expenditures along with employment (see, Employment) were the highlights of January's small business data. While large firms are usually considered the major source of capital expenditures and primarily responsible for the current "capital boom," small business is undoubtedly taking part.

Fifty-seven (57) percent reported making one or more capital expenditures in the last three to six months (Table 21). It is the largest percent making capital expenditures since 1985. The composition of those expenditures shifted dramatically, however. The number investing in equipment/vehicles jumped five percentage points from October; the number investing in improved buildings fell four percentage points over the same period. Both are large changes for the series. The changes could be evidence that the 1986 Tax Reform Act has had a major impact on small business investment decisions. However, additional quarters with distributions similar to January's will be required before such an assertion can be made.

Table 21

PERCENT MAKING CAPITAL EXPENDITURES
IN LAST SIX MONTHS

TYPE OF EXPENDITURE	1986 JAN	1987 JAN	1988 JAN	1988 APR	1988 JUL	1988 OCT	1989 JAN
All Types+	57%	54%	55%	55%	56%	55%	57%
Equipment/ Vehicles	47	43	45	45	44	44	49
Add Buildings Improved	8	7	8	6	7	7	7
Buildings	16	15	15	16	16	18	14
Land	4	4	6	3	3	4	4

+Percent of firms making one or more capital expenditures

Despite the greater frequency of capital expenditures made, the distribution of their size did not seem to change very much (Table 22). Forty-one (41) percent of all capital expenditures made were less than $10,000 and 63 percent were less than $20,000. The numbers in October, July and April were practically the same. While January, 1988, produced larger expenditures, it appears an unusual quarter.

Expected capital expenditures (seasonally adjusted) for the next three to six months tied October's survey record high (Chart 5). Thirty-six (36) percent, the largest raw number in the series, planned to make capital outlays (Table 23). Rising interest rates

Table 22

CAPITAL EXPENDITURES MADE IN LAST SIX MONTHS
BY SIZE OF TOTAL EXPENDITURES

AMOUNT OF EXPENDITURES (000's)	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Under $1	7	8	6	5	8	7	6
$1 - 4	20	24	19	19	20	20	22
$5 - 9	14	14	11	15	14	13	13
$10 - 19	20	19	21	22	22	21	22
$20 - 49	17	15	19	19	17	17	18
$50 - 99	11	10	10	9	9	11	9
$100 - 499	9	9	9	8	8	8	8
$500 - 999	1	1	1	1	2	2	1
$1,000 or More	1	1	4	1	*	1	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

(see, Credit Conditions) may make it more difficult for plans to be realized. However, earnings have held up well during the expansion (see, Earnings) and explain why capital expenditures are rising when interest rates are also going up. The question is how high do interest rates have to rise before capital expenditure activity begins to recede.

Single Most Important Problem

"Taxes" and "Government Regulation(s)/Red Tape" once again were most frequently cited as the single most important problem of small business (Table 24). It was the fifth consecutive quarter that the tandem headed the list and the twenty-third consecutive quarter that "Taxes" has been on top. But the significance of these data lay in the problems that were infrequently cited.

After three consecutive quarters of rising interest rates, the number mentioning "Interest Rates & Financing" as their single most important problem moved two percentage points higher. The rise suggested increasing concern. Yet, only nine percent noted the problem, fewer than noted five others. But the data were consistent with other parts of the report. General feelings and attitudes were beginning to be affected by higher interest rates (see, Outlook), but they had yet to impact actual plans (see, Capital Expenditures).

Just three percent cited "Inflation" as their single most important problem, up one percentage point from October and one

percentage point above the record low. These data indicate little small business owner concern over rising prices. In fact, January's level is actually two percentage points below that of January, 1988.

Chart 5

CAPITAL EXPENDITURE PLANS

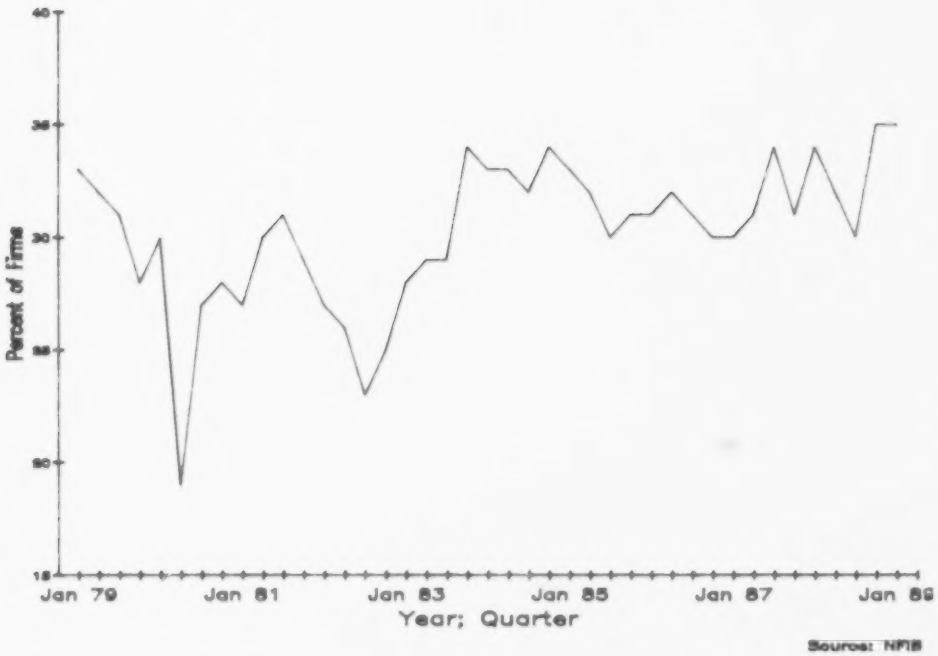


Table 23

EXPECTED CAPITAL EXPENDITURES
IN NEXT THREE TO SIX MONTHS

CAPITAL EXPENDITURES EXPECTATIONS	1986 JAN	1987 JAN	1988 JAN	APR	1988 JUL	OCT	1989 JAN
Yes	32	31	35	33	29	34	36
No	53	53	50	51	57	50	48
Don't Know	12	11	11	12	11	11	13
No Answer	3	5	4	4	3	5	3
Total	100%	100%	100%	100%	100%	100%	100%

Table 24

SINGLE MOST IMPORTANT PROBLEM

Table 24

SINGLE MOST IMPORTANT PROBLEM

MOST IMPORTANT PROBLEMS	Prior High Date	%	Prior Low Date	%	1988 APR Rank	%	JUL Rank	%	OCT Rank	%	1989 JAN Rank	%
Taxes	4/88+	25	10/74	8	1	25	1	25	1	23	1	22
Inflation	10/74	41	10/87+	2	8	3	8	5	8	2	8	3
Poor Sales	10/82	23	1/75+	1	4	10	3	11	4	11	4	10
Interest Rates & Financing	4/82+	37	7/77	4	7	6	7	5	6	7	6	9
Cost of Labor	7/77	9	7/82	2	6	7	6	6	7	6	7	5
Government Regulation(s)/ Red Tape	1/88	18	7/82+	4	2	15	2	17	2	14	2	16
Competition from Large Business	10/76	13	4/80+	4	3	12	3	11	4	11	3	12
Quality of Labor	10/88+	12	1/83+	3	4	10	5	10	3	12	4	10
Shortage of Fuel Material, Goods	1/74	23	10/82+	*	9	*	9	*	9	*	9	*
Other; No Answer	-	-	-	-	-	12	-	12	-	14	*	13
Total					-	100	-	100	-	100	-	100

* Less than 0.5%
\+ Most recent

Index of Small Business Optimism

The Index of Small Business Optimism fell a slight one-tenth of a point on a seasonally-adjusted basis, suggesting no change in underlying economic activity. It declined from 102.9 in October to 102.8 in January (1978=100) (Table 25). The GNP forecast based on the Index projected about a four percent growth rate (annualized) in the year's first quarter. No matter what continuing adjustments are made for bad weather losses, the number reflects a "hot" economy (Chart 6).

Regional Conditions

The Pacific has emerged as the region where small business owners are most optimistic over future business conditions. Wresting the honor from regions along the east coast, Pacific region small business owners have now produced the highest Index of Small Business Optimism in each of the last three quarters. But the regions along the east coast and the reinvigorated Great Lakes

Table 25

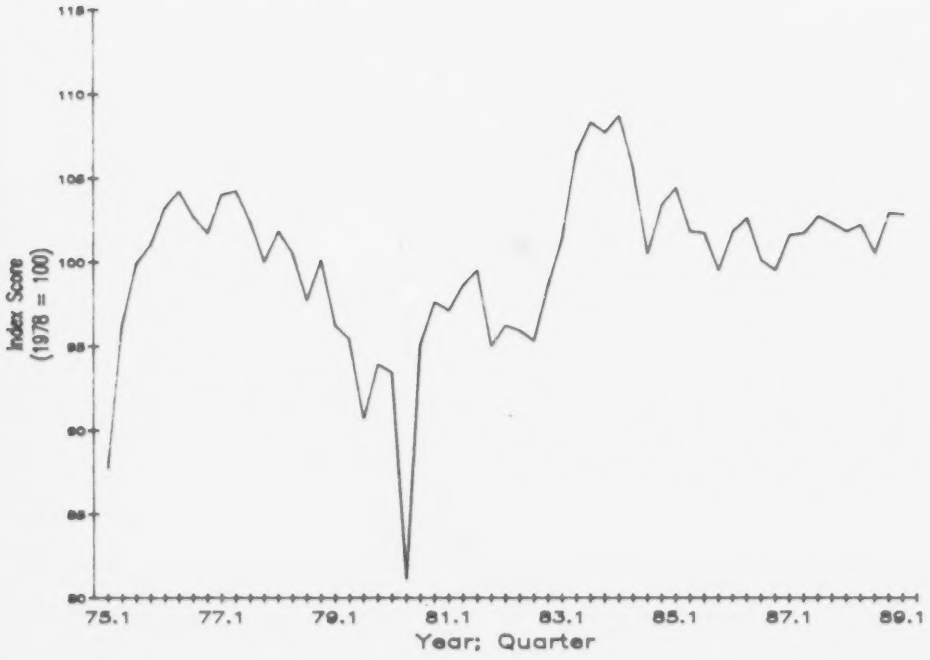
INDEX OF SMALL BUSINESS OPTIMISM
BY MAJOR COMPONENTS

INDEX COMPONENTS	1986 JAN	1987 JAN	1988 JAN	1988 APR	1988 JUL	1988 OCT	1989 JAN
General Expectations[1]	113.5	112.0	108.5	117.5	109.3	107.3	110.5
Current Status[2]	99.3	101.3	103.0	101.7	105.7	106.3	104.3
Spending Plans[3]	117.0	116.3	120.3	119.7	113.0	113.7	119.7
Index*	110.3	110.1	110.4	113.4	109.3	103.7	111.4
Index (1978=100)+	101.8	101.6	101.8	102.3	100.5	102.9	102.8

*Index numbers +Seasonally Adjusted
[1]Expected Business Conditions, climate for Expansion, Expected Real Sales Volume, Expected Conditions
[2]Current Job Openings, Current Inventory Satisfaction, Change in Net Earnings
[3]Plans to Hire, Make Capital Expenditures, Add to Inventories

Chart 6

INDEX OF SMALL BUSINESS OPTIMISM



closely lagged. The greatest problems lay west of the Mississippi River through the Rockies (Table 26). Chart 7 outlines the sharp regional differences.

All regions except the Mid-Atlantic recorded a lower Index score in January than in October (seasonally adjusted). The lower scores were relatively small and not confined to any part of the country. However, some of the lower scores were part of a general regional trend while others appeared to be a one quarter phenomenon. The unnumbered charts at the end of the text provide a region by region illustration of the quarterly regional Index of Small Business Optimism compared to the region's 1977-78 average level.

New England continued to do reasonably well. But it appears that the region's "glory days" are vanishing rapidly. Between April, 1984, and April, 1988, New England produced the nation's highest Index score every quarter. Despite the loss of its preeminent position, the region's Index in January, 1989, remained well above its 1977-78 average. The region continued a healthy growth pattern. Yet, the Index has been trending down for about the last year and one-half.

The Mid-Atlantic region's Index of Small Business Optimism slid higher in January underscoring the region's strong and stable growth. The gap between January's Index and its 1977-78 average was greater in the Mid-Atlantic states than in any other region in the country.

The Index of Small Business Optimism for the South Atlantic region took the largest fall between October and January of those in any region. No obvious reason for the tumble appeared, however. Since the decline occurred from a comparatively high base, the

Table 26

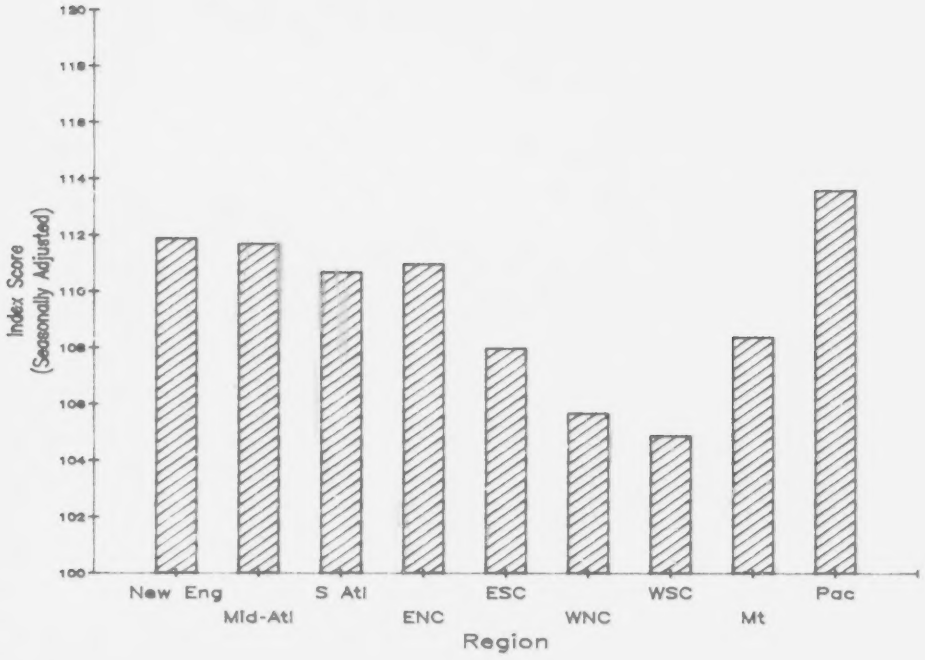
REGIONAL INDICES OF SMALL BUSINESS OPTIMISM
(not seasonally adjusted)

Regions*	1985	1986	1987	1988			
	OCT	OCT	OCT	JAN	APR	JUL	OCT
New England	117.0	114.9	115.3	114.4	120.7	111.5	109.8
Mid-Atlantic	110.1	114.0	108.2	113.9	117.1	111.3	107.9
South Atlantic	109.2	110.9	109.5	112.0	116.3	110.7	111.9
East North Cent.	95.1	107.6	107.0	112.3	108.6	108.6	109.3
West North Cent.	106.3	101.1	105.7	107.9	103.2	103.2	105.2
East South Cent.	101.9	106.8	103.3	107.1	109.5	109.5	107.1
West South Cent.	102.8	99.6	109.2	104.6	105.1	105.1	105.3
Mountain	102.8	101.7	105.3	106.2	107.0	107.0	108.3
Pacific	105.5	107.9	107.9	112.5	112.1	112.1	111.3

*States in each region are listed in Appendix A-2

Chart 7

REGIONAL INDICES OF SMALL BUSINESS OPTIMISM



region's Index score remained healthy (Chart 7). But the South Atlantic region, like New England, has been losing its leading role over the last several quarters.

The economic resurgence of the Great Lakes region continues. The region's Index slipped in January from October (seasonally adjusted), but still remained above its 1977-78 average. For the last four years, the region's progress as measured by the Index has been steady, the steadiest of any region in the country.

The Index for the East South Central region has been volatile in large part due to its small size. About 100 small business owners from ther region respond to the survey each quarter. But even though quarterly movements can be confusing, the trend is clear: the region occupies a level approximating the Mountain region. It is a level between the five regions at the top and the two at the bottom.

Small business owners in the West North Central region have struggled over the last 15 years like those in no other part of the country. While the fortunes of small business owners in the

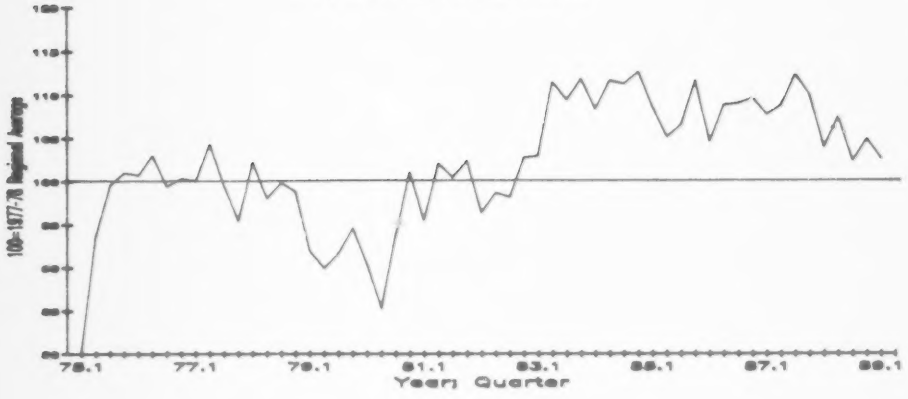
separate regions have generally varied since institution of the survey, they have not varied in the West North Central. The region has always been near or at the bottom. In January, only the South West Central region recorded a lower Index score.

Small business seemed to be making a swift comeback in the West South Central region about two years ago. Then, the Index took another tumble as oil, agriculture and real estate weakened again leaving the region's small business owners the nation's least optimistic. January was no different. Not only were small business owners in the region less optimistic than were those in any other (Chart 7), but they were less optimistic compared to the 1977-78 average than were those in any other region.

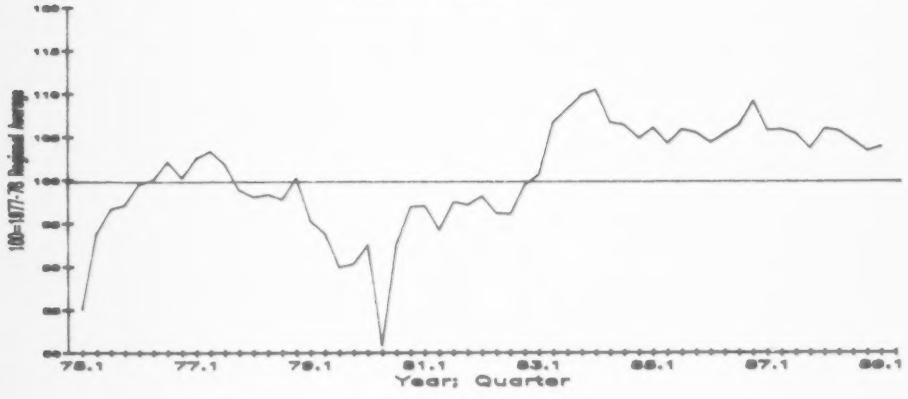
Last October's sharp rise in the Mountain region's Index was offset by January's fall. However, small businessmen and women in the Mountain area appeared to feel better about the future in January than they did throughout most of the 1986 to mid-1988 period. The region's fortunes seemed to have been reversed.

The Index of Small Business Optimism for the Pacific region was the nation's highest in January (Chart 7). However, the Pacific region's small business owners have traditionally been more optimistic than have those in other parts of the country. January's Index, therefore, was virtually identical to its 1977-78 average. Proximity to the 1977-78 average has characterized the last four years. Thus, the Pacific's emergence as the leading region for small business optimism is not so much a case of the Pacific surging to the front as it is of other regions falling back.

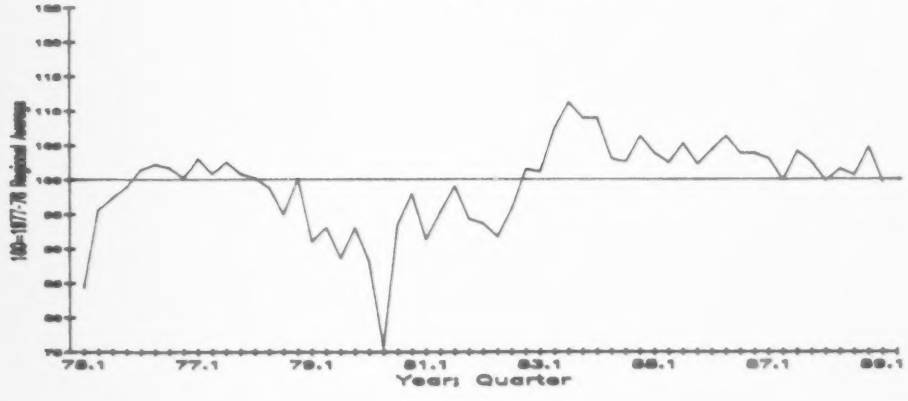
NEW ENGLAND



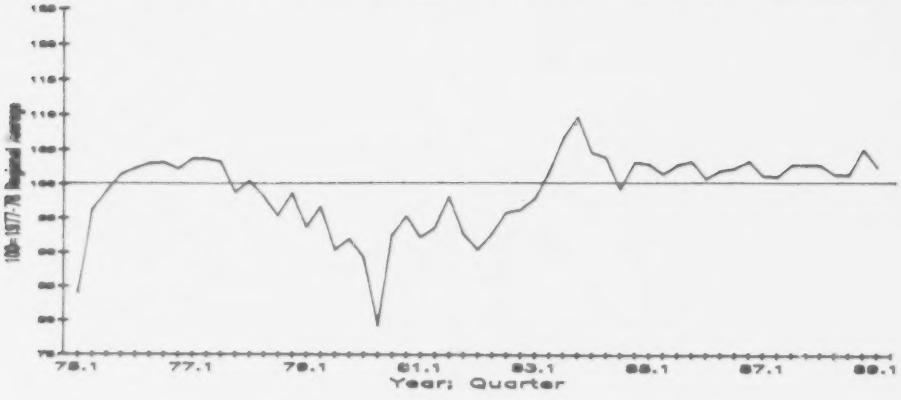
MID-ATLANTIC



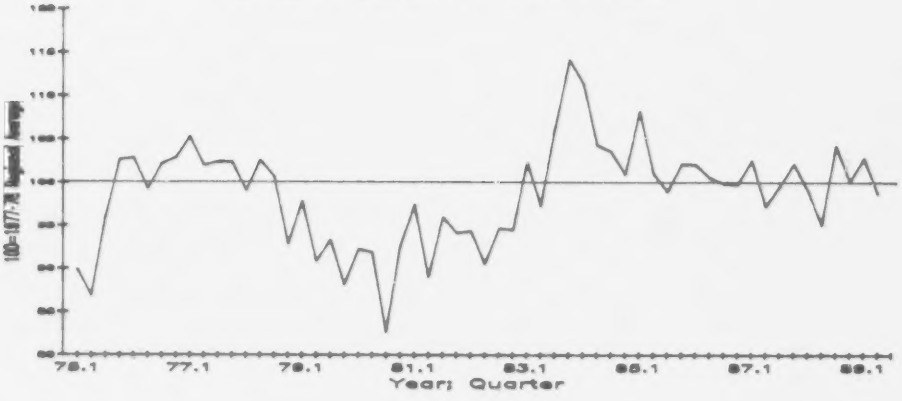
SOUTH ATLANTIC



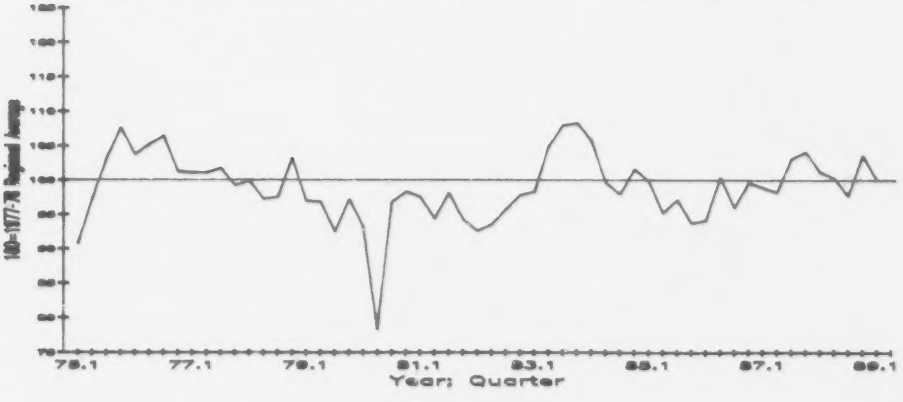
EAST NORTH CENTRAL - THE GREAT LAKES



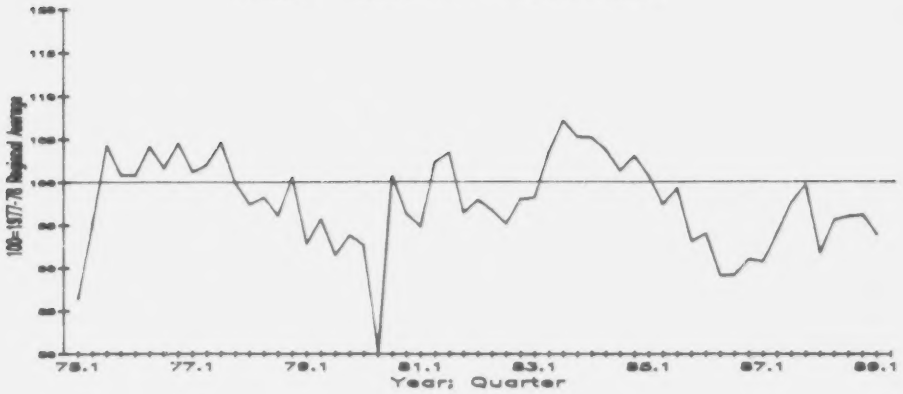
EAST SOUTH CENTRAL



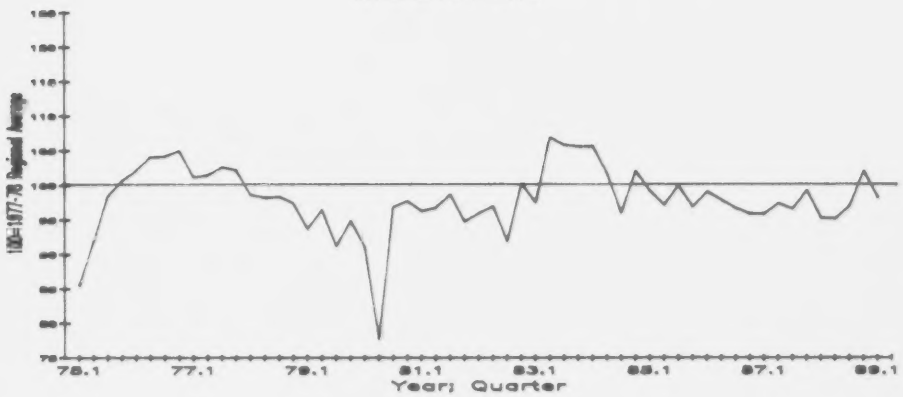
WEST NORTH CENTRAL - THE PLAINS



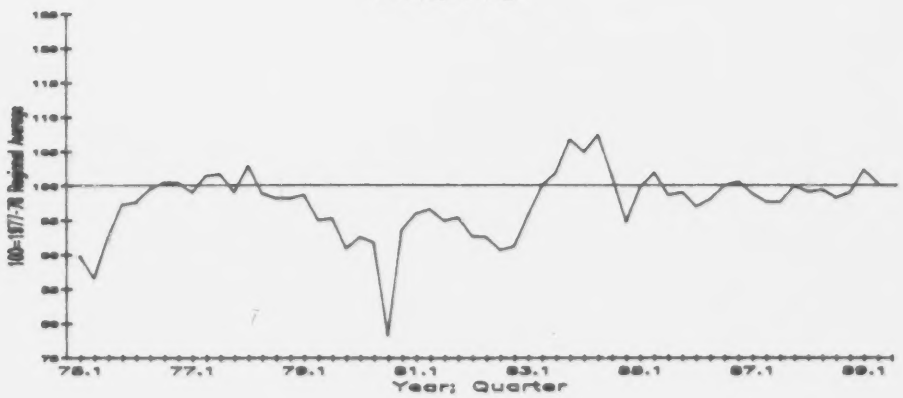
WEST SOUTH CENTRAL



MOUNTAIN



PACIFIC



APPENDIX

TABLE A-1
DESCRIPTION OF INDUSTRY CLASSIFICATIONS

INDUSTRY	INDUSTRY EXAMPLES
Construction	Construction (building contractors-general, painting, carpentry, plumbing, heating, electrical, etc., highway & bridge contractors; swimming pool construction, etc.)
Manufacturing	Manufacturing and mining (including dairy processor, printer, publisher)
Transportation	Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, etc.)
Wholesale	Wholesale (including grain elevator, livestock dealer, distributor of construction equipment, etc.)
Retail	Retail sales (including food store, service station, restaurant, bar, radio and TV store, drug store, furniture and appliances, auto dealer, etc.
Agriculture	Agriculture veterinarian, forestry, landscaping, fisheries
Financial Services	Finance companies, insurance, real estate, banks, savings & loans, etc.
Nonprofessional Services	Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping services, photographer, funeral director, rental agency, credit bureau, laundry, etc.
Professional Services	Physician, dentist, attorney, optometrist, engineer, architect, accountant, skilled nursing care facility, etc.

TABLE A-2
DEFINITION OF REGIONS

REGION	STATES INCLUDED IN REGION
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
Mid-Atlantic	New Jersey, New York, Pennsylvania
East North Central	Illinois, Indiana, Michigan, Ohio, Wisconsin
West North Central	Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
South Atlantic	Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia, (also includes Washington, D.C.)
East South Central	Alabama, Kentucky, Mississippi, Tennessee
West South Central	Arkansas, Louisiana, Oklahoma, Texas
Mountain	Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming
Pacific	Alaska, California, Hawaii, Oregon, Washington

TABLE A-3
ANNUAL GROSS SALES BY INDUSTRY

SALES OF FIRM	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms January 1989
	INDUSTRY									
Less than $50,000	6	3	7	3	7	14	6	16	12	8
$50,000-99,999	9	5	10	2	14	13	13	17	20	12
$100,000-199,000	13	12	10	6	18	26	12	23	26	16
$200,000-349,000	14	13	10	9	15	13	15	18	18	14
$350,000-799,999	20	20	14	14	19	13	18	13	11	17
$800,000-1,499,999	16	15	22	18	12	12	18	5	6	13
$1,500,000-2,999,999	12	15	11	17	8	4	5	4	4	9
$3,000,000 or more	9	17	13	29	6	4	10	3	1	9
Not Ascertained	1	*	3	2	1	1	2	1	2	2
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Number of Firms	309	267	70	153	614	100	170	243	162	2088
Percent of Firms	15	13	3	7	29	5	8	12	8	100%

* Less than 0.5%

TABLE A-4
NUMBER OF EMPLOYEES BY INDUSTRY

EMPLOYEES	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms January 1989
	INDUSTRY									
1	5	2	6	2	10	13	11	13	11	8
2	6	5	1	8	10	16	13	13	15	10
3 - 5	27	17	20	28	34	33	39	37	39	31
6 - 9	19	20	22	17	20	12	17	16	17	18
10 - 14	14	12	13	11	10	10	3	5	9	10
15 - 19	8	9	10	10	4	1	1	5	3	6
20 - 39	11	16	13	9	6	3	5	3	1	8
40 or more	6	18	11	14	4	3	5	5	2	7
No Answer	4	1	4	1	2	9	6	3	3	2
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

NFIB QUARTERLY ECONOMIC SURVEY

Please circle the appropriate answers or fill in the blanks.

1. What is your form of business organization?

[1] Proprietorship [2] Partnership [3] Corporation 1

2. Please classify your major business activity, using one of the categories of examples below. (If more than one applies, circle ***the one*** which contributes the most toward your gross sales or total revenues.)

[1] Construction (general contractor, painting, carpentry, plumbing, heating, electrical, highway, ***etc.***)
[2] Manufacturing and mining (including dairy processor, printer, publisher, ***etc.***)
[3] Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, ***etc.***)
[4] Wholesale (including grain elevator, livestock dealer, distributor of equipment, manufacturer's rep., ***etc.***) 2
[5] Retail (including service station, restaurant, bar, radio and TV store, drug store, florist, apparel, ***etc.***)
[6] Agriculture, veterinarian, forestry, landscaping, fisheries, ***etc.***
[7] Financial, insurance, real estate, bank, savings & loan, ***etc.***
[8] Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping service, photographer, funeral director, rental agency, credit bureau, laundry, ***etc.***
[9] Physician, dentist, attorney, engineer, architect, accountant, skilled nursing care facility, ***etc.***
[10] Other (please describe) _____

3. What is the single most important problem facing your business today? (Please circle only **ONE** of the following):

[1] Taxes [4] Interest rates & financing [8] Quality of labor
[2] Inflation [5] Cost of labor [9] Shortage of fuels, materials or goods 3
[3] Poor sales [6] Government regulation(s) & red tape [0] Other _____ (please explain)
[7] Competition from large businesses

4. Do you think the ***next three months*** will be a good time for small business to expand substantially?

[1] Yes [2] No [3] Uncertain 4

4a. Why? (Circle **ONE** answer – ***most important reason***)

[1] Economic conditions [3] Financing & interest rates [5] Other _____ 5
[2] Sales prospects [4] Cost of expansion (please explain)

5. About the economy in general, do you think that ***six months from now*** general business conditions will be better than they are now, about the same, or worse?

[1] Much better [3] About the same [5] Much worse 6
[2] Somewhat better [4] Somewhat worse [6] Don't know

6. During the last 3 months or calendar quarter, what were your gross sales, or revenues?

[1] Under $12,500 [3] $25,000–49,999 [5] $87,500–199,999 [7] $375,000–749,999 7
[2] $12,500–24,999 [4] $50,000–87,499 [6] $200,000–374,999 [8] $750,000 or more

6a. During the ***last calendar quarter,*** was your dollar sales volume higher, lower, or about the same as it was ***for the quarter before***?

[1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 8

6b. If higher or lower, by approximately what percentage?

[1] Less than 6% [3] 11%–15% [5] 21%–25% [7] 36%–50% 9
[2] 6%–10% [4] 16%–20% [6] 26%–35% [8] 51% or more

7. Were your net earnings or "income" (after taxes) from your business during the ***last calendar quarter*** higher, lower, or about the same as they were ***for the quarter before***?

[1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 10

7a. If higher or lower, by approximately what percentage?

[1] Less than 6% [3] 11%–15% [5] 21%–25% [7] 36%–50% 11
[2] 6%–10% [4] 16%–20% [6] 26%–35% [8] 51% or more

7b If higher or lower, what is the ***most important reason***? (Circle only **ONE**)

[1] Sales volume
[2] Labor costs
[3] Cost of materials
[4] Availability of materials
[5] Received higher prices for your product or service
[6] Financing costs
[7] Usual seasonal change
[8] Other _____ (Specify)

12

8. Overall, what do you expect to happen to the real ***volume*** (number of units) of goods and/or services that you will sell during the ***next three months***?

[1] Go up a lot
[2] Go up a little
[3] Stay the same
[4] Go down a little
[5] Go down a lot
[6] Don't know

13

9. How are your average selling prices now compared to three months ago?

[1] Lower now
[2] No difference
[3] Higher now
[4] Don't know

14

9a. If ***higher or lower***, by what percent, on an average?

[1] Less than 1%
[2] 1.0–1.9%
[3] 2.0–2.9%
[4] 3.0–3.9%
[5] 4.0–4.9%
[6] 5.0–7.9%
[7] 8.0–9.9%
[8] 10% or more
[9] Don't know

15

10. In the ***next three months***, do you plan to ***change*** the average selling prices of your goods and/or services?

[1] Yes, raise prices
[2] Yes, lower prices
[3] No change
[4] Don't know

16

10a. If raise or lower, by what percent, ***on average***?

[1] Less than 1%
[2] 1.0–1.9%
[3] 2.0–2.9%
[4] 3.0–3.9%
[5] 4.0–4.9%
[6] 5.0–7.9%
[7] 8.0–9.9%
[8] 10% or more
[9] Don't know

17

11. How many employees do you have full and part-time ***including yourself***?

[1] One
[2] Two
[3] 3–5
[4] 6–9
[5] 10–14
[6] 15–19
[7] 20–39
[8] 40 or more

18

12. During the ***last three months***, did the ***total*** number of employees in your firm increase, decrease, or stay about the same?

[1] Increased by ____ employee(s)
[2] Decreased by ____ employee(s)
[3] Stayed the same

19-21

12a. If the ***total number*** of employees increased or decreased, was this change due primarily to ***seasonal factors*** affecting your business?

[1] Yes
[2] No

22

13. In the ***next three months***, do you expect to increase or decrease the total number of people working for you?

[1] Increase
[2] Keep the same
[3] Decrease

23

14. Do you have any job openings that you are ***not*** able to fill right now?

[1] Yes, for skilled labor
[2] Yes, for unskilled labor
[3] Yes, both skilled and unskilled labor
[4] No

24

14a. If you have any openings, about how long have these jobs been available? (Circle **ONE** category which best describes your overall situation):

[1] Less than one month
[2] One month, but less than three months
[3] Three months, but less than six months
[4] Six months or more

25

15. During the last three months, did you increase or decrease your inventories?

[1] Increase
[2] About the same
[3] Decrease
[4] Not appropriate

26

15a. If increase or decrease, by approximately what percent?

[1] Less than 6%
[2] 6%–10%
[3] 11%–15%
[4] 16%–20%
[5] 21%–25%
[6] 26%–35%
[7] 36%–50%
[8] 51% or more

27

16. At the present time, do you feel your inventories are too large, about right, or inadequate?

[1] Too large
[2] About right
[3] Too low
[4] Not appropriate

28

16a. Looking ahead to the next three to six months, do you expect, on balance, to add to your inventories, keep them about the same, or decrease them?

[1] Add
[2] Keep the same
[3] Decrease
[4] Not appropriate

29

(See next page)

17. If you borrow money regularly (at least once every 3 months) as part of your business activity, how does the rate of interest payable on your most recent loan compare with that paid ***three months ago***?

[1] Much higher [3] Same [5] Much lower [7] Inapplicable, do not borrow regularly 30
[2] Higher [4] Lower [6] Don't know

17a. Are these loans easier or harder to get than they were ***three months ago***?

[1] Easier [2] Same [3] Harder [4] Don't know 31

17b. Do you expect to find it easier or harder to obtain your required financing during the ***next three months***?

[1] Easier [2] Same [3] Harder [4] Don't know 32

18. If you borrowed within the last three months for business purposes, and the loan maturity (pay back period) was 1 year or less, what interest rate did you pay? _____ % or Prime + _____ 33-35

19. During ***the last 6 months*** has your firm made any capital expenditures to improve or purchase equipment, buildings, or land? (Check all that apply)

Equipment, Vehicles:	[1] Yes	36
Additional Buildings:	[1] Yes	37
Improved Buildings:	[1] Yes	38
Additional Land:	[1] Yes	39

19a. ***If yes***, what was ***the total cost*** of these projects (i.e. total purchase price)?

[1] under $1,000 [4] $10,000-19,999 [7] $100,000-499,999 40
[2] $1,000-4,999 [5] $20,000-49,999 [8] $500,000-999,999
[3] $5,000-9,999 [6] $50,000-99,999 [9] $1 million or more

20. Looking ahead to the next three to six months, do you expect to make any capital expenditures for plant and/or physical equipment?

[1] Yes [2] No [3] Don't know 41

PLEASE DO NOT REMOVE ADDRESS LABEL
(Needed for compiling geographical and industry information)

21. Do you plan to change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.) during the ***next three months***?

[1] Increase [2] Keep the same [3] Decrease [4] Don't know 42

21a. If Increase or Decrease, by what percentage on average?

[1] 1-2% [3] 5-6% [5] 9-10% [7] Don't know 43
[2] 3-4% [4] 7-8% [6] Over 10%

22. Over the ***past three months***, did you change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.)?

[1] Increased [2] Kept the same [3] Decreased 44

22a. If Increased or Decreased, by what percentage on average?

[1] 1-2% [3] 5-6% [5] 9-10% 45
[2] 3-4% [4] 7-8% [6] Over 10%

23. Please indicate the geographical area that best describes the community in which your business is located.

[1] **A metropolitan/urban area (population of over 100,000 in city and immediate area)** 46
[2] **A small city (population over 15,000 but under 100,000 in city and immediate area)**
[3] **A rural area (population under 15,000 in city and surrounding communities)**

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Washington, DC 20024

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